

**TOWN OF
FRAMINGHAM, MASSACHUSETTS**

Annual Financial Statements

For the Year Ended June 30, 2002

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INDEPENDENT AUDITORS' REPORT

To the Board of Selectmen
Town of Framingham, Massachusetts

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Framingham, Massachusetts, as of and for the year ended June 30, 2002, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Framingham's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Framingham, as of June 30, 2002, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1B, the Town has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial*

Statements - and Management's Discussion and Analysis - for State and Local Governments, as of June 30, 2002.

The management's discussion and analysis and contributory retirement disclosures information on pages 3 through 12 and 46 and 47 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 6, 2003 on our consideration of the Town's internal control over financial reporting and our tests of its compliance with laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Melanson Heath & Company P.C.

Andover, Massachusetts
January 6, 2003

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Town of Framingham, we offer readers of the Town of Framingham's financial statements this narrative overview and analysis of the financial activities of the Town of Framingham for the fiscal year ended June 30, 2002. All amounts in the Management's Discussion and Analysis, unless otherwise indicated, are expressed in thousands of dollars.

A. FINANCIAL HIGHLIGHTS

- The assets of the Town of Framingham exceeded its liabilities at the close of the most recent fiscal year by \$ 140,865 (net assets). Of this amount, \$ 27,758 constitutes unrestricted net assets some of which are available for use as of June 30, 2002 and others, though measurable, will not be available until subsequent periods.
- As of the close of the fiscal year, the government's total net assets increased by \$ 18,374. The major components of this increase are as follows:
 - Local Receipts in excess of budget estimates in the amount of \$ 1,204 including: (1) building permit fees \$ 769 higher than estimates, (2) a \$ 200 reimbursement from FEMA for costs associated with a major snowstorm in March, 2001, and (3) other one-time reimbursements for prior year expenditures such as workers' compensation payments.
 - Collection of delinquent taxes of prior fiscal years in the amount of \$ 1,520 resulting from an aggressive tax collection and foreclosure program administered by the Town Collector. Included in this amount was a single payment of \$ 750 against one of the largest tax title accounts on the books of the Town.
 - Expenditures less than appropriations of \$ 1,372 resulting from a mid-year hiring freeze in anticipation of fiscal 2003 budget short fall and tighter controls imposed on spending.
 - A net increase in enterprise fund assets (Water, Sewer and Loring Arena) of \$ 890. While the net assets of the water and sewer operations showed increases of approximately 2.5% and 1.8% respectively, due in part, to the inclusion of depreciation expense as a component of full cost recovery, the Arena's net assets declined by approximately 15% because revenues were sufficient to cover operating costs but not depreciation.

- As of the close of the current fiscal year, the Town of Framingham's governmental funds reported combined ending fund balances of \$ 14,142, a decrease of \$ 4,991 in comparison with the prior year.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$ 3,713, or 2% of total general fund expenditures.
- The Town of Framingham's total debt (bonds and bond anticipation notes) increased by \$ 18,969 (27%) during the current fiscal year. The key factor in this increase was the bond anticipation notes issued to fund the high school renovations.

B. OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Town of Framingham's basic financial statements. The Town of Framingham's basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements. The government-wide financial statements are designed to provide readers with a broad overview of the Town of Framingham's finances in a manner similar to a private-sector business.

The statement of net assets presents information on all of the Town of Framingham's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Town of Framingham is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Town of Framingham that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The government activities of the Town of Framingham include general government, public safety, highways and streets, sanitation, economic development, and culture and recreation. The business-type activities of the Town of Framingham include Water, Sewer and Arena activities.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Framingham, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town of Framingham can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Town of Framingham maintains in excess of 100 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the general fund and the High School Renovation fund, which are considered to be major funds. Data from the other governmental funds are combined into a single aggregated presentation.

The Town of Framingham adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Proprietary funds. The Town of Framingham maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town of Framingham uses enterprise funds to account for its Water, Sewer and Arena operations. Internal service funds are an accounting device used to accumulate and allocate costs internally among the Town of Framingham's various functions. The Town of Framingham uses internal service funds to account for its self-insured employee health program. Because this service predominantly benefits governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water, Sewer and Arena operations, which are considered to be major funds of the Town of Framingham.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Town of Framingham's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Town of Framingham's progress in funding its obligation to provide pension benefits to its employees.

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Town of Framingham, assets exceeded liabilities by \$ 140,865 at the close of the most recent fiscal year. The largest portion of the Town of Framingham's net assets (50%) reflects its investment in capital assets (e.g., land, buildings, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The Town of Framingham uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Framingham's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

TOWN OF FRAMINGHAM NET ASSETS AT JUNE 30, 2002

	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	<u>Total</u>
Current and other assets	\$ 65,266	\$ 14,969	\$ 80,235
Noncurrent assets	<u>138,467</u>	<u>37,456</u>	<u>175,923</u>
Total assets	203,733	52,425	256,158
Long-term liabilities outstanding	60,735	2,465	63,200
Other liabilities	<u>50,453</u>	<u>1,640</u>	<u>52,093</u>
Total liabilities	111,188	4,105	115,293

(continued)

(continued)

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Net assets:			
Invested in capital assets, net of related debt	36,406	34,483	70,889
Restricted	42,218	-	42,218
Unrestricted	<u>13,921</u>	<u>13,837</u>	<u>27,758</u>
Total net assets	\$ <u>92,545</u>	\$ <u>48,320</u>	\$ <u>140,865</u>

An additional portion of the Town of Framingham's net assets (29%) represents resources that are subject to external restrictions on how they may be used (e.g., grants and trust funds). The remaining balance of unrestricted net assets is \$ 27,758, which includes amounts that are available for use as of June 30, 2002, and other amounts, though measurable, that will not be available until subsequent periods (e.g., unrestricted fund balances subject to appropriation, taxes and charges billed but not yet collected).

At the end of the current fiscal year, the Town of Framingham is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

Governmental activities. Governmental activities increased the Town of Framingham's net assets by \$ 17,484.

Business-Type activities. Business-type activities increased the Town of Framingham's net assets by \$ 890.

Key elements of these increases are as follows:

TOWN OF FRAMINGHAM
CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2002

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Revenues:			
Program revenues:			
Charges for services	\$ 13,896	\$ 19,455	\$ 33,351
Operating grants and contributions	26,794	-	26,794
Capital grants and contributions	360	-	360
General revenues:			
Property taxes	104,709	-	104,709
Excises	7,119	-	7,119
			(continued)

(continued)

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Grants and contributions not restricted to specific programs	39,889	-	39,889
Other	<u>3,685</u>	<u>207</u>	<u>3,892</u>
Total revenues	196,452	19,662	216,114
Expenses:			
General government	9,155	-	9,155
Public safety	22,370	-	22,370
Education	99,867	-	99,867
Public works	11,088	-	11,088
Human services	1,215	-	1,215
Culture and recreation	4,591	-	4,591
Employee benefits	24,760	-	24,760
Intergovernmental	1,776	-	1,776
Interest on long-term debt	4,004	-	4,004
Water	-	7,392	7,392
Sewer	-	10,864	10,864
Arena	<u>-</u>	<u>658</u>	<u>658</u>
Total expenses	<u>178,826</u>	<u>18,914</u>	<u>197,740</u>
Increase in net assets before transfers	17,626	748	18,374
Transfers	<u>(142)</u>	<u>142</u>	<u>-</u>
Increase in net assets	17,484	890	18,374
Net assets - beginning of year	<u>75,061</u>	<u>47,430</u>	<u>122,491</u>
Net assets - end of year	\$ <u>92,545</u>	\$ <u>48,320</u>	\$ <u>140,865</u>

D. FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the Town of Framingham uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the Town of Framingham's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the Town of Framingham's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Town of Framingham's governmental funds reported combined ending fund balances of \$ 14,142, a decrease of \$ 4,991 in comparison with the prior year. This decrease is primarily a function of

short-term financing of the Framingham High School Renovation Project because project expenditures are recorded but bond anticipation note proceeds are not recognized as revenue to offset the expenditures. The negative impact of the Project on fund balance will be reversed in a future period when short-term debt is converted to long-term financing. Approximately 62% of this total amount (\$ 8,772) is classified as unreserved fund balance which is nonetheless subject to appropriation or limitations imposed by grantors or Massachusetts General Laws. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed (1) to liquidate contracts and purchase orders of the prior period (\$ 1,002), and (2) to be used as a funding source for the subsequent budget (\$ 4,368).

The general fund is the chief operating fund of the Town of Framingham. At the end of the current fiscal year, unreserved fund balance of the general fund was \$ 3,713, while total fund balance reached \$ 9,083. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 2% of total general fund expenditures, while total fund balance represents 5% of that same amount.

The fund balance of the Town of Framingham's general fund increased by \$ 1,990 during the current fiscal year. Key factors in this change are as follows:

- Appropriated use of free cash and overly surplus as a budgetary funding source for the fiscal year 2002 operating budget (\$ 2,660).
- Funding of Teachers Pay Deferral as Authorized by Massachusetts Department of Revenue (\$ 200).
- Revenue surplus of \$ 1,205.
- Appropriation turnbacks of \$ 1,373.
- Excess tax revenue collections of \$ 1,704.

Proprietary funds. The Town of Framingham's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the enterprise funds at the end of the year amounted to \$ 13,837. The total growth in net assets was \$ 890. Other factors concerning the finances of these three funds have already been addressed in the discussion of the Town of Framingham's business-type activities.

E. GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget were relatively minor (\$ 29 increase in appropriations) and were funded primarily by the use of Unreserved Fund Balance.

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. The Town of Framingham's investment in capital assets net of related debt for its governmental and business-type activities as of June 30, 2002 amounts to \$ 70,890 (net of accumulated depreciation). This investment in capital assets includes land, buildings, system improvements, machinery and equipment, park facilities, roads, highways and bridges.

Major capital asset events during the current fiscal year included the following:

- The first of 3 phases of the Framingham High School construction began in the spring of 2002 with the ground breaking for construction of the new science wings and library expansion. Total architectural design and construction costs are estimated at \$ 54,000. The project is scheduled for completion in August, 2005. This project is being financed through the issuance of debt that was excluded from the limits of Proposition 2 ½ by voter referendum. The project has been approved for 90% reimbursement from the Commonwealth of Massachusetts under the guidelines for school building projects in districts with approved Racial Balance plans. As of June 30, the Town has issued bond anticipation notes totaling approximately \$ 23,758.
- The final phase of the Cameron Middle School Renovation project was completed in August, 2002. The total cost of the construction was \$ 18,500. Final purchases for technology and equipment will be made in fiscal year 2003. This project has been approved for 90% reimbursement from the Commonwealth of Massachusetts under the guidelines for school building projects in districts with approved Racial Balance plans.
- Continued investment in the capital maintenance of water and sewer infrastructure. In response to demands of infrastructure repair and maintenance, the Framingham Department of Public Works has developed a plan to repair or replace mains on an on-going basis. During the year, they started water projects on Old Connecticut Path, Union and Walnut Streets as well as continued sewer projects on the Sudbury River Interceptor and various pumping stations. These projects have been funded by use of water and sewer retained earnings and an \$ 868 interest free loan from Massachusetts Water Resources Authority through its local financial assistance program.
- In FY02, the Town of Framingham acquired the overhead and underground streetlight infrastructure from NSTAR, its local electric supplier, at a cost of approximately \$ 445. Factoring in the additional cost of contracting the

annual maintenance of the lights, the Town realized over \$ 85 in reduced costs in FY02.

- The Town of Framingham started construction on the Downtown Common Restoration and Enhancement Project, the first of three projects funded partially by the National Park Service's America's Treasures Project. Additional projects include the installation of "period" streetlights and the restoration of the Danforth Street Project. Total anticipated cost for the three projects is \$ 1,183 to be funded by \$ 237 of general obligation notes, a \$ 499 grant from the National Park Service, \$ 70 from Community Development funds, \$ 276 from various state agencies and highway funds and the remainder from local contributions and mitigation funds.

TOWN OF FRAMINGHAM

CAPITAL ASSETS

(net of depreciation)

June 30, 2002

	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	<u>Total</u>
Land	\$ 18,154	\$ 640	\$ 18,794
Buildings and improvements	71,319	-	71,319
Machinery and equipment	1,091	519	1,610
Vehicles	3,134	500	3,634
Infrastructure	-	33,288	33,288
Construction in progress	<u>7,867</u>	<u>2,509</u>	<u>10,376</u>
Total	<u>\$ 101,565</u>	<u>\$ 37,456</u>	<u>\$ 139,021</u>

Additional information on the Town of Framingham's capital assets can be found in the footnotes to the financial statements.

Long-term debt. At the end of the current fiscal year, the Town of Framingham had total bonded debt outstanding of \$ 66,953, all of which was debt backed by the full faith and credit of the government.

TOWN OF FRAMINGHAM

OUTSTANDING DEBT

General Obligation and Revenue Bonds

June 30, 2002

	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	<u>Total</u>
General obligation bonds	\$ <u>63,981</u>	\$ <u>2,972</u>	\$ <u>66,953</u>

The Town of Framingham maintains an "Aa3" rating from Moody's for general obligation debt.

State statutes limit the amount of general obligation debt a governmental entity may issue to 5% of its total assessed valuation. The current debt limitation for the Town of Framingham is \$ 324,679, which is significantly in excess of the Town of Framingham's outstanding general obligation debt.

Additional information on the Town of Framingham's long-term debt can be found in the footnotes to the financial statements.

G. ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- The unemployment rate for the Town of Framingham is currently 4.0%, which is an increase from a rate of 2.89% a year ago. This compares to the State's average unemployment rate of 4.7% and the national average rate of 5.9%.
- Inflationary trends in the region compare favorably to national indices.

All of these factors were considered in preparing the Town of Framingham's budget for the 2002 fiscal year.

During the current fiscal year, unreserved fund balance in the general fund increased to \$ 3,712. In addition, the Town of Framingham has appropriated \$ 4,397 of "free cash" and "overlay surplus" of which \$ 3,697 will be used to finance the FY03 general fund operating budget and \$ 700 will fund capital projects. The \$ 3,457 of "free cash" certified by the Massachusetts Department of Revenue as of July 1, 2002 is available, subject to appropriation, to finance FY03 or FY04 expenditures

On June 11, 2002, the citizens of the Town of Framingham voted to permanently exceed the tax expenditure limitation imposed by Proposition 2 ½ by \$ 7,173 in order to maintain general fund service delivery expenditures in FY03 and beyond.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Town of Framingham's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Chief Financial Officer
Town of Framingham
Memorial Building
150 Concord Street
Framingham, Massachusetts 01702

TOWN OF FRAMINGHAM, MASSACHUSETTS

Statement of Net Assets

June 30, 2002

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS			
Current:			
Cash and cash equivalents	\$ 50,573,300	\$ 8,254,177	\$ 58,827,477
Receivables, net of allowance for uncollectibles:			
Property taxes	4,599,619	-	4,599,619
Motor vehicle excise	916,341	-	916,341
User fees	155,482	6,689,620	6,845,102
Departmental and other	214,223	-	214,223
Intergovernmental	5,074,424	-	5,074,424
Other assets	3,732,220	25,614	3,757,834
Noncurrent:			
Receivables, net of allowance for uncollectibles	36,902,278	-	36,902,278
Capital assets, net of accumulated depreciation	<u>101,565,156</u>	<u>37,456,109</u>	<u>139,021,265</u>
TOTAL ASSETS	203,733,043	52,425,520	256,158,563
LIABILITIES			
Current:			
Warrants payable	3,181,720	157,517	3,339,237
Accounts payable	1,069,250	700,862	1,770,112
Accrued liabilities	8,937,114	48,624	8,985,738
Tax refunds payable	994,362	-	994,362
Notes payable	24,328,164	205,100	24,533,264
Bonds payable	5,715,205	507,598	6,222,803
Other liabilities	6,526,696	20,710	6,547,406
Noncurrent:			
Bonds payable	58,265,000	2,464,840	60,729,840
Compensated absences	<u>2,170,262</u>	<u>-</u>	<u>2,170,262</u>
TOTAL LIABILITIES	111,187,773	4,105,251	115,293,024
NET ASSETS			
Invested in capital assets, net of related debt	36,406,011	34,483,671	70,889,682
Restricted for:			
Federal and state grants	2,748,630	-	2,748,630
Permanent funds	464,790	-	464,790
Other purposes	39,004,733	-	39,004,733
Unrestricted	<u>13,921,106</u>	<u>13,836,598</u>	<u>27,757,704</u>
TOTAL NET ASSETS	<u>\$ 92,545,270</u>	<u>\$ 48,320,269</u>	<u>\$ 140,865,539</u>

See notes to financial statements.

TOWN OF FRAMINGHAM, MASSACHUSETTS

Statement of Activities

Fiscal Year Ended June 30, 2002

	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
General government	\$ 9,154,889	\$ 962,168	\$ 2,000,752	\$ -	\$ (6,191,969)	\$ -	\$ (6,191,969)
Public safety	22,370,582	3,878,312	1,008,216	-	(17,484,054)	-	(17,484,054)
Education	99,867,268	4,748,384	21,565,217	254,229	(73,299,438)	-	(73,299,438)
Public works	11,088,082	1,370,171	1,796,079	97,652	(7,824,180)	-	(7,824,180)
Health and human services	1,214,701	157,080	237,942	8,063	(811,616)	-	(811,616)
Culture and recreation	4,590,720	457,825	186,216	-	(3,946,679)	-	(3,946,679)
Employee benefits	24,760,236	2,321,937	-	-	(22,438,299)	-	(22,438,299)
Interest	4,003,874	-	-	-	(4,003,874)	-	(4,003,874)
Intergovernmental	1,776,042	-	-	-	(1,776,042)	-	(1,776,042)
Total Governmental Activities	178,826,394	13,895,877	26,794,422	359,944	(137,776,151)	-	(137,776,151)
Business-Type Activities:							
Water services	7,392,850	7,998,026	-	-	-	605,176	605,176
Sewer services	10,863,490	11,104,785	-	-	-	241,295	241,295
Arena services	658,543	352,382	-	-	-	(306,161)	(306,161)
Total Primary Government	\$ 197,741,277	\$ 33,351,070	\$ 26,794,422	\$ 359,944	(137,776,151)	540,310	(137,235,841)
General Revenues:							
Property taxes					104,709,153	-	104,709,153
Motor vehicle and other excise taxes					7,118,684	-	7,118,684
Penalties and interest on taxes					1,926,999	-	1,926,999
Grants and contributions not restricted to specific programs					39,889,483	-	39,889,483
Investment income					783,399	207,809	991,208
Miscellaneous					974,492	-	974,492
Transfers, net					(142,158)	142,158	-
Total general revenues, special items and transfers					155,260,052	349,967	155,610,019
Change in Net Assets					17,483,901	890,277	18,374,178
Net Assets:							
Beginning of Year					75,061,369	47,429,992	122,491,361
End of Year					\$ 92,545,270	\$ 48,320,269	\$ 140,865,539

See notes to financial statements.

TOWN OF FRAMINGHAM, MASSACHUSETTS

Governmental Funds

Balance Sheet

June 30, 2002

ASSETS

Cash and cash equivalents
 Receivables, net of allowance for uncollectibles:
 Property taxes
 Motor vehicle excise
 User fees
 Departmental and other
 Intergovernmental
 Other assets
 TOTAL ASSETS

General
 \$ 14,889,437
 5,587,619
 2,188,341
 -
 39,722
 39,004,733
 23,420
\$ 61,733,272

High School
 Renovation
 \$ 17,833,590
 -
 -
 -
 -
 -
 -
\$ 17,833,590

Nonmajor
 Governmental
 Funds
 \$ 16,298,222
 -
 -
 155,482
 174,501
 2,614,622
 3,708,800
\$ 22,951,627

Total
 Governmental
 Funds
 \$ 49,021,249
 5,587,619
 2,188,341
 155,482
 214,223
 41,619,355
 3,732,220
\$ 102,518,489

LIABILITIES AND FUND BALANCES

Liabilities:

Warrants payable
 Accounts payable
 Accrued liabilities
 Tax refunds payable
 Deferred revenues
 Other liabilities
 Notes payable

\$ 1,223,125
 235,594
 3,753,688
 994,362
 46,434,916
 8,722
 -
52,650,407

\$ -
 -
 -
 -
 -
 -
 23,758,164
23,758,164

\$ 1,956,621
 833,656
 381,381
 -
 1,708,184
 6,517,974
 570,000
11,967,816

\$ 3,179,746
 1,069,250
 4,135,069
 994,362
 48,143,100
 6,526,696
 24,328,164
88,376,387

TOTAL LIABILITIES

Fund Balances:

Reserved for:
 Encumbrances and continuing appropriations
 Expenditures
 Permanent funds
 Unreserved:

1,002,211
 4,367,716
 -

-
 -
 -

1,002,211
 4,367,716
 464,790

Undesignated, reported in:

General fund
 Special revenue funds
 Capital projects funds

3,712,938
 -
 -

-
 -
 (5,924,574)

3,712,938
 9,505,607
 (4,911,160)

TOTAL FUND BALANCES

9,082,865
\$ 61,733,272

(5,924,574)
\$ 17,833,590

10,983,811
\$ 22,951,627

TOTAL LIABILITIES AND FUND BALANCES

\$ 102,518,489

See notes to financial statements.

TOWN OF FRAMINGHAM, MASSACHUSETTS
RECONCILIATION OF TOTAL GOVERNMENTAL FUND
BALANCES TO NET ASSETS OF GOVERNMENTAL
ACTIVITIES IN THE STATEMENT OF NET ASSETS

FISCAL YEAR ENDED JUNE 30, 2002

Total governmental fund balances (page 15) \$ 14,142,102

- Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 101,565,156
- Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds. 357,347
- Internal services funds are used by management to account for health insurance and workers' compensation activities. The assets and liabilities of the internal service funds are included in the governmental activities in the Statement of Net Assets. (1,839,148)
- In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. (1,412,820)
- Revenues are recognized on an accrual basis of accounting instead of a modified accrual basis. 45,883,100
- Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds. (66,150,467)

Net assets of governmental activities (page 13) \$ 92,545,270

See notes to financial statements.

TOWN OF FRAMINGHAM, MASSACHUSETTS

Governmental Funds

Statement of Revenues, Expenses and Changes in Fund Net Assets

Fiscal Year Ended June 30, 2002

	General	High School Renovation	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:				
Property taxes	\$ 102,632,654	\$ -	\$ -	\$ 102,632,654
Excises	6,988,684	-	-	6,988,684
Penalties, interest and other taxes	1,926,999	-	-	1,926,999
Charges for services	5,336,550	-	3,488,875	8,825,425
Intergovernmental	39,411,748	-	12,840,256	52,252,004
Licenses and permits	1,655,158	-	-	1,655,158
Fines and forfeitures	412,812	-	-	412,812
Interest earnings	775,517	-	131,803	907,320
Miscellaneous	693,201	-	3,167,915	3,861,116
Total Revenues	159,833,323	-	19,628,849	179,462,172
Expenditures:				
Current:				
General government	6,192,428	-	2,760,798	8,953,226
Public safety	18,987,504	-	2,612,649	21,600,153
Education	86,000,251	-	12,017,538	98,017,789
Public works	7,831,511	-	2,718,188	10,549,699
Health and human services	974,543	-	218,845	1,193,388
Culture and recreation	3,503,284	-	583,153	4,086,437
Employee benefits	23,787,700	-	-	23,787,700
Debt service	9,041,873	-	-	9,041,873
Intergovernmental	1,776,042	-	-	1,776,042
Capital outlay	-	4,372,776	-	4,372,776
Total Expenditures	158,095,136	4,372,776	3,622,135	166,090,047
Excess (deficiency) of revenues over expenditures	1,738,187	(4,372,776)	(4,904,457)	(7,539,046)
Other Financing Sources (Uses):				
Proceeds of bonds	-	-	2,690,205	2,690,205
Operating transfers in	404,174	-	176,160	580,334
Operating transfers out	(152,158)	-	(570,334)	(722,492)
Total Other Financing Sources (Uses)	252,016	-	2,296,031	2,548,047
Excess (deficiency) of revenues and other sources over expenditures and other uses	1,990,203	(4,372,776)	(2,608,426)	(4,990,999)
Fund Equity, July 1, 2001	7,092,662	(1,551,798)	13,592,237	19,133,101
Fund Equity, June 30, 2002	\$ 9,082,865	\$ (5,924,574)	\$ 10,983,811	\$ 14,142,102

See notes to financial statements.

TOWN OF FRAMINGHAM, MASSACHUSETTS
 RECONCILIATION OF THE STATEMENT OF REVENUES,
 EXPENDITURES, AND CHANGES IN FUND BALANCES OF
 GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

FISCAL YEAR ENDED JUNE 30, 2002

Net change in fund balances - total governmental funds (page 17) \$ (4,990,999)

- Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:

Capital outlay purchases	8,244,542
Depreciation	(3,893,607)

- Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue. 16,990,281

- The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net assets:

Issuance	(2,690,205)
Repayment	5,360,000

- In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. (322,001)

- Some expenses reported in the Statement of Activities, such as compensated absences, do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds:

Compensated absences	(241,574)
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- Internal service funds are used by management to account for health insurance and workers' compensation activities.

The net activity of internal service funds is reported with Governmental Activities.	(972,536)
--	------------

Change in net assets of governmental activities (page 14) \$ 17,483,901

See notes to financial statements.

TOWN OF FRAMINGHAM, MASSACHUSETTS

General Fund

Statement of Revenues and Other Sources, and Expenditures and Other Uses - Budget and Actual

Fiscal Year Ended June 30, 2002

	Budgeted Amounts		Actual	Variance with
	Original	Final	Budgetary	Final Budget
	Budget	Budget	Amounts	Positive
				(Negative)
Revenues and Other Sources:				
Taxes	\$ 100,928,162	\$ 100,928,162	\$ 100,928,162	\$ -
Excise	6,745,900	6,745,900	6,988,684	242,784
Penalties, interest and other taxes	1,754,093	1,754,093	1,926,999	172,906
Charges for services	5,265,543	5,265,543	5,336,550	71,007
Intergovernmental	28,682,779	28,682,779	27,993,377	(689,402)
Licenses and permits	885,760	885,760	1,655,158	769,398
Fines and forfeits	325,000	325,000	412,812	87,812
Interest earnings	879,561	879,561	775,517	(104,044)
Other	55,079	55,079	693,201	638,122
Transfers in	387,804	387,804	404,174	16,370
Other sources	2,631,012	2,660,399	2,660,399	-
Total Revenues and Other Sources	148,540,693	148,570,080	149,775,033	1,204,953
Expenditures and Other Uses:				
General government	6,753,137	6,889,067	6,275,710	613,357
Public safety	19,305,352	19,381,062	19,035,150	345,912
Education	74,210,545	74,523,115	74,516,874	6,241
Public works	8,218,135	8,011,400	7,958,381	53,019
Human services	1,007,726	1,007,838	977,361	30,477
Culture and recreation	3,560,322	3,560,562	3,529,599	30,963
Debt service	9,369,892	9,169,892	9,041,873	128,019
Intergovernmental	1,889,754	1,889,754	1,776,042	113,712
Employee benefits	23,884,714	23,786,274	23,735,377	50,897
Transfers out	142,158	152,158	152,158	-
Other uses	198,958	198,958	198,958	-
Total Expenditures and Other Uses	148,540,693	148,570,080	147,197,483	1,372,597
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ 2,577,550	\$ 2,577,550

See notes to financial statements.

TOWN OF FRAMINGHAM, MASSACHUSETTS

Proprietary Funds

Statement of Net Assets

June 30, 2002

	Business-Type Activities Enterprise Funds			Governmental Activities Internal Service Funds
	Water Fund	Sewer Fund	Arena Fund	
<u>ASSETS</u>				
Current:				
Cash and cash equivalents	\$ 4,012,637	\$ 4,171,026	\$ 70,514	\$ 1,552,051
User fees, net of allowance for uncollectibles	3,152,270	3,537,350	-	-
Other assets	25,614	-	-	-
Total current assets	7,190,521	7,708,376	70,514	1,552,051
Noncurrent:				
Property, plant and equipment, net of accumulated depreciation	23,057,166	13,628,250	770,693	-
Total noncurrent assets	23,057,166	13,628,250	770,693	-
TOTAL ASSETS	30,247,687	21,336,626	841,207	1,552,051
<u>LIABILITIES</u>				
Current:				
Warrants payable	58,122	99,198	197	1,974
Accounts payable	700,862	-	-	-
Accrued liabilities	31,172	14,215	3,237	3,389,225
Notes payable	205,100	-	-	-
Bonds payable	201,490	306,108	-	-
Other	-	20,710	-	-
Total current liabilities	1,196,746	440,231	3,434	3,391,199
Noncurrent:				
Bonds and notes payable	1,748,638	716,202	-	-
Total noncurrent liabilities	1,748,638	716,202	-	-
TOTAL LIABILITIES	2,945,384	1,156,433	3,434	3,391,199
<u>NET ASSETS</u>				
Invested in capital assets, net of related debt	21,107,038	12,605,940	770,693	-
Unrestricted	6,195,265	7,574,253	67,080	(1,839,148)
TOTAL NET ASSETS	\$ 27,302,303	\$ 20,180,193	\$ 837,773	\$ (1,839,148)

See notes to financial statements.

TOWN OF FRAMINGHAM, MASSACHUSETTS

Proprietary Funds

Statement of Revenues, Expenses and Changes in Fund Net Assets

Fiscal Year Ended June 30, 2002

	Business-Type Activities Enterprise Funds			Governmental Activities
	Water Fund	Sewer Fund	Arena Fund	Internal Service Fund
Operating Revenues:				
Charges for services	\$ 7,958,888	\$ 10,924,624	\$ 350,382	\$ 20,798,377
Other	39,138	180,161	2,000	51,244
Total Operating Revenues	7,998,026	11,104,785	352,382	20,849,621
Operating Expenses:				
Salaries and wages	1,187,376	804,531	213,412	-
Operating expenses	546,316	568,104	130,277	21,822,157
Depreciation	646,439	556,408	157,352	-
Intergovernmental	4,055,425	7,601,442	-	-
Other	925,193	1,267,422	136,604	-
Total Operating Expenses	7,360,749	10,797,907	637,645	21,822,157
Operating Income (Loss)	637,277	306,878	(285,263)	(972,536)
Nonoperating Revenues (Expenses):				
Investment income	84,505	110,136	13,168	-
Interest expense	(32,101)	(65,583)	(20,898)	-
Total Nonoperating Revenues (Expenses), Net	52,404	44,553	(7,730)	-
Income (Loss) Before Transfers	689,681	351,431	(292,993)	(972,536)
Transfers:				
Transfers in	-	-	142,158	-
Change in Net Assets	689,681	351,431	(150,835)	(972,536)
Net Assets at Beginning of Year	26,612,622	19,828,762	988,608	(866,612)
Net Assets at End of Year	\$ 27,302,303	\$ 20,180,193	\$ 837,773	\$ (1,839,148)

See notes to financial statements.

TOWN OF FRAMINGHAM, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

FISCAL YEAR ENDED JUNE 30, 2002

	Business-Type Activities Enterprise Funds			Governmental Activities
	Water Fund	Sewer Fund	Arena Fund	Internal Service Fund
Cash Flows From Operating Activities:				
Receipts from customers and users	\$ 7,768,300	\$ 11,035,358	\$ 352,382	\$ 20,849,621
Payments to vendors	(5,132,920)	(9,536,874)	(274,497)	(21,350,986)
Payments to employees	(1,187,376)	(804,531)	(213,412)	-
Net Cash Provided By (Used For) Operating Activities	1,448,004	693,953	(135,527)	(501,365)
Cash Flows From Noncapital Financing Activities:				
Transfers in	-	-	142,158	-
Other	-	-	11,975	-
Net Cash (Used For) Noncapital Financing Activities	-	-	154,133	-
Cash Flows From Capital and Related Financing Activities:				
Proceeds from issuance of bonds and notes	1,018,354	489,142	-	-
Acquisition and construction of capital assets	(1,765,636)	(221,732)	-	-
Principal payments on bonds and notes	(243,133)	(127,310)	-	-
Interest expense	(32,101)	(65,583)	(20,898)	-
Net Cash (Used For) Capital and Related Financing Activities	(1,022,516)	74,517	(20,898)	-
Cash Flows From Investing Activities:				
Investment income	84,505	110,136	13,168	-
Net Change in Cash and Short-Term Investments	509,993	878,606	10,876	(501,365)
Cash and Short-Term Investments, Beginning of Year	3,502,644	3,292,420	59,638	2,053,416
Cash and Short-Term Investments, End of Year	\$ 4,012,637	\$ 4,171,026	\$ 70,514	\$ 1,552,051
Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities:				
Operating income (loss)	\$ 637,277	\$ 306,878	\$ (285,263)	\$ (972,536)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation	646,439	556,408	157,352	-
Changes in assets and liabilities:				
User fees	(229,726)	(70,463)	-	-
Other assets	(25,614)	-	-	-
Warrants payable	(120,530)	55,200	(136)	1,629
Accrued liabilities	(86,779)	(712)	286	469,542
Other liabilities	626,937	(153,358)	(7,766)	-
Net Cash Provided By (Used For) Operating Activities	\$ 1,448,004	\$ 693,953	\$ (135,527)	\$ (501,365)

See notes to financial statements.

TOWN OF FRAMINGHAM, MASSACHUSETTS

Fiduciary Funds

Statement of Fiduciary Net Assets

December 31, 2001

ASSETS

Cash and cash equivalents		\$ 76,670
Investments:		
Common stock	\$ 484,577	
Mutual funds and other	<u>129,209,655</u>	
Total Investments		129,694,232
Accounts receivable		<u>139,851</u>
Total Assets		129,910,753

LIABILITIES AND NET ASSETS

Accounts payable		8,260
Deferred revenue		<u>3,260,698</u>
Total Liabilities		<u>3,268,958</u>
Total Net Assets Held in Trust For Pension Benefits		<u><u>\$ 126,641,795</u></u>

See notes to financial statements.

TOWN OF FRAMINGHAM, MASSACHUSETTS

Statement of Changes in Plan Net Assets
Pension Trust Fund

For the Year Ended December 31, 2001

Additions:

Contributions:

Employers	\$ 6,389,750
Plan members	3,504,784
Reimbursements from Federal grants	96,645
Reimbursements from Commonwealth of Massachusetts	139,474
Reimbursements from other systems	<u>434,984</u>
Total contributions	10,565,637

Investment Income:

Interest and dividends	4,454,584
Realized gain/(loss)	(4,113,354)
Unrealized appreciation (depreciation) in market value	<u>(9,726,008)</u>
Net investment income	<u>(9,384,778)</u>

Total additions	1,180,859
-----------------	-----------

Deductions:

Benefit payments to plan members and beneficiaries	11,799,439
Reimbursements to other systems	213,034
Refunds and transfers of plan member accounts to other systems	667,595
Administrative expenses	<u>199,211</u>
Total deductions	<u>12,879,279</u>

Net (decrease)	(11,698,420)
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Net assets held in trust for pension benefits:

Beginning of Year	<u>138,340,215</u>
End of Year	<u>\$ 126,641,795</u>

See notes to financial statements.

TOWN OF FRAMINGHAM, MASSACHUSETTS
Notes to General Purpose Financial Statements

1. Summary of Significant Accounting Policies

The accounting policies of the Town of Framingham (the Town) conform to generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of the more significant policies:

A. Reporting Entity

The government is a municipal corporation governed by an elected Board of Selectmen. As required by generally accepted accounting principles, these financial statements present the government and applicable component units for which the government is considered to be financially accountable. In fiscal year 2002, it was determined that no entities met the required GASB-14 criteria of component units.

B. GASB Statement No. 34

In fiscal year 2002, the Town implemented the Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. Accordingly, the financial statements include, for the first time, a Management's Discussion and Analysis, Government Wide, and Fund Financial Statements, with the focus on major funds, as more fully described in other sections of Note 1.

C. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants

and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, excises and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

- The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

- The High School Building project accounts for all revenues, other financing sources, and all costs related to the construction of the new High School.

The government reports the following major proprietary funds:

- The water fund is used to report the Town's water enterprise fund operations.
- The sewer fund is used to report the Town's sewer enterprise operations.
- The arena fund is used to report the Town's arena enterprise operations.

The *pension trust fund* accounts for the activities of the Employees Contributory Retirement System, which accumulates resources for pension benefit payments to qualified employees.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include (1) changes to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes and excises.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

E. Cash and Cash Equivalents

Cash balances from all funds, except those required to be segregated by law, are combined to form a consolidation of cash. Cash balances are invested to the extent available, and interest earnings are recognized in the General Fund. Certain special revenue funds and fiduciary funds segregate cash, and investment earnings become a part of those funds.

Deposits with financial institutions consist primarily of demand deposits, certificates of deposits, and savings accounts. The Town maintains a cash and investment pool that is available for use by all funds. Each fund's portion of this pool is reflected on the combined financial statements under the caption "cash and cash equivalents". The interest earnings attributable to each fund type is included under earnings on investments.

For purpose of the statement of cash flows, the proprietary funds and non-expendable trust funds consider investments with original maturities of three months or less to be cash equivalents.

F. Investments

State and local statutes place certain limitations on the nature of deposits and investments available to the Town. Deposits in any financial institution may not exceed certain levels within the financial institution. Non-fiduciary fund investments can be made in securities issued by or unconditionally guaranteed by the U.S. Government or agencies that have a maturity of one year or less from the date of purchase and repurchase agreements guaranteed by such securities with maturity dates of no more than 90 days from the date of purchase.

Investments for the Contributory Retirement System and Trust Funds consist of marketable securities, bonds and short-term money market investments. Investments are carried at market value.

G. Property Tax Limitations

Legislation known as "Proposition 2 1/2" limits the amount of revenue the Town can derive from property taxes. The prior fiscal year's tax levy limit is used as a base and cannot increase by more than 2.5 percent (excluding new growth), unless an override or debt exemption is voted. The actual fiscal year 2002 tax levy reflected an excess capacity of approximately \$ 25,000.

H. Inventories

Inventories are valued at cost using the first-in/first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when purchased rather than when consumed. No significant inventory balances were on hand in governmental funds.

I. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (for enterprise funds only) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$ 5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant and equipment of the primary government, as well as the component units, is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Building improvements	7 - 20
Water/sewer infrastructure	50 - 75
Vehicles	5 - 10
Office equipment	5 - 10
Computer equipment	5

J. Compensated Absences

It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vested sick and vacation pay is accrued when incurred in the government-wide, proprietary and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

K. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

L. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

M. Encumbrance Accounting and Reporting

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities.

2. Stewardship, Compliance and Accountability

A. Budgetary Information

At the annual town meeting, the Finance Committee presents an operating and capital budget for the proposed expenditures of the fiscal year commencing the following July 1. The budget, as enacted by town meeting, establishes the legal level of control and specifies that certain appropriations are to be funded by particular revenues. The original budget is amended during the fiscal year at special town meetings as required by changing conditions. In cases of extraordinary or unforeseen expenses, the Finance Committee is empowered to transfer funds from the Reserve Fund (a contingency appropriation) to a departmental appropriation. "Extraordinary" includes expenses which are not in the usual line, or are great or exceptional. "Unforeseen" includes expenses which are not foreseen as of the time of the annual meeting when appropriations are voted.

Departments are limited to the line items as voted. Certain items may exceed the line item budget as approved if it is for an emergency and for the safety of the general public. These items are limited by the Massachusetts General Laws and must be raised in the next year's tax rate.

Formal budgetary integration is employed as a management control device during the year for the General Fund and Proprietary Funds. Effective budgetary control is achieved for all other funds through provisions of the Massachusetts General Laws.

At year end, appropriation balances lapse, except for certain unexpended capital items and encumbrances which will be honored during the subsequent year.

B. Budgetary Basis

The General Fund appropriation appearing on page 18 of the financial statements represents the final amended budget of the Town and was authorized as follows:

2002 annual appropriations	\$ 146,249,922
2002 supplemental appropriations	29,388
Statutory County and State assessments	1,632,554
Other uses legally required to be raised	<u>658,216</u>
Total Appropriation	\$ <u>148,570,080</u>

C. Budget/GAAP Reconciliation

The budgetary data for the general and proprietary funds is based upon accounting principles that differ from generally accepted accounting principles (GAAP). Therefore, in addition to the GAAP basis financial statements, the results of operations of the general fund are presented in accordance with budgetary accounting principles to provide a meaningful comparison with budgetary data.

The following is a summary of adjustments made to the actual revenues and other sources, and expenditures and other uses, to conform to the budgetary basis of accounting.

<u>General Fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/Expenditures (GAAP basis)	\$ 159,833,323	\$ 158,095,136
Other financing sources/uses (GAAP basis)	404,174	152,158
Adjust tax revenue to accrual basis	(1,704,492)	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(832,609)
Add end of year appropriation carryforwards to expenditures	-	1,002,211
To reverse the effect of non-budgeted State contributions for teachers retirement	(11,418,371)	(11,418,371)
Recognize other sources and uses	<u>2,660,399</u>	<u>198,958</u>
Budgetary basis	\$ <u>149,775,033</u>	\$ <u>147,197,483</u>

D. Deficit Fund Equity

The following funds had deficits as of June 30, 2002:

Capital Project Funds:	
High school renovations	\$(5,924,574)
Nonmajor capital projects	\$(417,068)
Internal Service Fund:	
Self Insurance Fund	\$(1,839,148)

The deficits in these funds will be eliminated through future departmental revenues, bond proceeds, and transfers from other funds.

3. Cash and Cash Equivalents

The carrying amount of the Town's and Retirement System's deposits with financial institutions at June 30, 2002 and December 31, 2001 was \$ 58,827,477 and \$ 76,670, respectively. The bank balances, which do not include reconciling items such as deposits in transit and outstanding checks, are categorized as follows:

	<u>Town Deposits</u> <u>June 30, 2002</u>	<u>Retirement System</u> <u>Deposits</u> <u>December 31, 2001</u>
Amount insured by the FDIC and DIF, or collateralized with securities held by the Town in its name	\$ 2,935,245	\$ 76,670
Uncollateralized	42,334,420	-
State investment pool	<u>11,561,819</u>	<u>-</u>
Total Bank Balance	\$ <u>56,831,484</u>	\$ <u>76,670</u>

At December 31, 2001, the Framingham Retirement System's investment balances were as follows (in thousands):

	<u>Category</u>			<u>Total</u>
	<u>1</u>	<u>2</u>	<u>3</u>	
Corporate equity	\$ -	\$ -	\$ 485	\$ 485
Investments not subject to categorization:				
Mutual funds				68,892
State investment pool				<u>60,317</u>
Total Investments				\$ <u>129,694</u>

4. Taxes Receivable

Real and personal property taxes are based on assessed values as of the previous January 1 and are normally due on a quarterly basis. By law, all taxable property must be assessed at 100% of fair cash value. Taxes due and unpaid after the due dates are subject to interest and penalties. The Town has an ultimate right to foreclose on property for unpaid taxes.

The following is a summary of the property tax calendar used for the 2002 tax levies:

June, 2001:

The first quarterly real estate tax bills are mailed to taxpayers. This bill is approximately equal to one quarter of the prior year's tax levy.

August, 2001:

The first quarter preliminary tax bills are due. All bills paid after this date are charged interest at the rate of 14% from the due date.

September, 2001:

The second quarter real estate tax bills are mailed to taxpayers. This bill is approximately equal to one quarter of the prior year's tax levy.

November, 2001:

The second quarter preliminary tax bills are due. All bills paid after this date are charged interest at the rate of 14% from the due date.

December, 2001:

The third quarter real estate and personal property tax bills are mailed to taxpayers. This bill is approximately equal to one half of the current tax levy less preliminary payments.

February, 2002:

The third quarter tax bills are due. All bills paid after this date are charged interest at the rate of 14% from the due date.

March, 2002:

The fourth quarter real estate and personal property tax bills are mailed to taxpayers. This is for the remainder of the tax levy.

May, 2002:

The fourth quarter tax bills are due. All bills paid after this date are charged interest at the rate of 14% from the due date.

Fourteen days after the due date for the fourth quarter tax bill for real estate taxes, a demand notice may be sent to the delinquent taxpayer. Fourteen days after the demand notice has been sent, the tax collector may proceed to file a lien against the delinquent taxpayers' property.

Taxes receivable at June 30, 2002 consist of the following (in thousands):

Real Estate		
2002	\$ 1,572	1,572
Personal Property		
2002	99	
2001	73	
2000	119	
Prior	<u>423</u>	
		714
Tax Liens		3,137
Deferred Taxes		<u>165</u>
Total		\$ <u>5,588</u>

5. Allowance for Doubtful Accounts

The receivables reported in the accompanying entity-wide financial statements reflect the following allowances for doubtful accounts (in thousands):

Property taxes	\$ 988
Excises	1,272
User fees	852

6. Due From Other Governments

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2002.

7. Capital Assets

Capital asset activity for the year ended June 30, 2002 was as follows (in thousands):

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 18,154	\$ -	\$ -	\$ 18,154
Construction in progress	<u>20,584</u>	<u>7,867</u>	<u>20,584</u>	<u>7,867</u>
Total capital assets, not being depreciated	38,738	7,867	20,584	26,021
Capital assets, being depreciated:				
Buildings and improvements	74,938	20,379	-	95,317
Machinery and equipment	1,654	249	-	1,903
Vehicles	<u>6,684</u>	<u>335</u>	-	<u>7,019</u>
Total capital assets, being depreciated	83,276	20,963	-	104,239

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	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Less accumulated depreciation for:				
Buildings and improvements	21,195	2,803	-	23,998
Machinery and equipment	518	294	-	812
Vehicles	<u>3,088</u>	<u>797</u>	<u>-</u>	<u>3,885</u>
Total accumulated depreciation	<u>24,801</u>	<u>3,894</u>	<u>-</u>	<u>28,695</u>
Total capital assets, being depreciated, net	<u>58,475</u>	<u>17,069</u>	<u>-</u>	<u>75,544</u>
Governmental activities capital assets, net	<u>\$ 97,213</u>	<u>\$ 24,936</u>	<u>\$ 20,584</u>	<u>\$ 101,565</u>

Note: The Town has not yet capitalized infrastructure assets for governmental activities.

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-Type Activities:				
Capital assets, not being depreciated:				
Land	\$ 640	\$ -	\$ -	\$ 640
Construction in progress	<u>1,095</u>	<u>1,414</u>	<u>-</u>	<u>2,509</u>
Total capital assets, not being depreciated	1,735	1,414	-	3,149
Capital assets, being depreciated:				
Buildings and improvements	59,151	282	-	59,433
Machinery and equipment	1,002	74	-	1,076
Vehicles	<u>1,594</u>	<u>194</u>	<u>-</u>	<u>1,788</u>
Total capital assets, being depreciated	61,747	550	-	62,297
Less accumulated depreciation for:				
Buildings and improvements	24,949	1,196	-	26,145
Machinery and equipment	497	60	-	557
Vehicles	<u>1,184</u>	<u>104</u>	<u>-</u>	<u>1,288</u>
Total accumulated depreciation	26,630	1,360	-	27,990
Total capital assets, being depreciated, net	<u>35,117</u>	<u>(810)</u>	<u>-</u>	<u>34,307</u>
Business-type activities capital assets, net	<u>\$ 36,852</u>	<u>\$ 604</u>	<u>\$ -</u>	<u>\$ 37,456</u>

Depreciation expense was charged to functions of the Town as follows (in thousands):

Governmental Activities:	
General government	\$ 436
Public safety	668
Education	1,764
Public works	520
Culture and recreation	490
Health and human services	<u>16</u>
Total depreciation expense - governmental activities	<u>\$ 3,894</u>
Business-Type Activities:	
Water	\$ 647
Sewer	556
Arena	<u>157</u>
Total depreciation expense - business-type activities	<u>\$ 1,360</u>

Construction Commitments

The government has active construction projects as of June 30, 2002. The projects include street construction in areas with newly developed housing, widening and construction of existing streets and bridges, and the construction of additional wastewater treatment facilities. At year end the government's significant commitments with contractors are as follows (in thousands):

<u>Project</u>	<u>Spent to Date</u>	<u>Remaining Commitment</u>
High School Renovation	\$ <u>5,925</u>	\$ <u>42,584</u>

8. Warrants and Accounts Payable

Warrants payable represent 2002 expenditures paid by July 15, 2002 as permitted by law. Accounts payable represent additional 2002 expenditures paid after July 15, 2002.

9. Deferred Revenue

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period.

The balance of the General Fund deferred revenues account is equal to the total of all June 30, 2002 receivable balances, except real and personal property taxes that are accrued for subsequent 60 day collections. The Town's statutory "allowance for abatements and exemptions" (overlay) account, with a balance of \$ 2,705,352 has been reclassified to deferred revenue for reporting purposes.

10. Tax Refunds Payable

This balance consists of an estimate of refunds due to property taxpayers for potential abatements. These cases are currently pending with the state Appellate Tax Board.

11. Anticipation Notes Payable

The Town had the following notes outstanding at June 30, 2002:

	<u>Interest Rate</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Balance at June 30, 2002</u>
Bond anticipation	2.50%	03/21/02	03/21/03	\$ 4,982,264
Bond anticipation	2.25%	06/26/02	03/21/03	19,421,000
Bond anticipation	-	06/26/02	12/31/02	130,000
Total				\$ <u>24,533,264</u>

The following summarizes activity in notes payable during fiscal year 2002:

	Balance Beginning of Year	New Issues	Maturities	Balance End of Year
Bond anticipation	\$ 2,500,000	\$ -	\$ 2,500,000	\$ -
Bond anticipation	413,670	-	413,670	-
Bond anticipation	-	6,584,000	6,584,000	-
Bond anticipation	-	4,982,264	-	4,982,264
Bond anticipation	-	19,421,000	-	19,421,000
Bond anticipation	-	130,000	-	130,000
Total	\$ 2,913,670	\$ 31,117,264	\$ 9,497,670	\$ 24,533,264

12. Long-Term Debt

A. General Obligation Bonds

The Town issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. Payment is not limited to a particular revenue source. However, as previously noted, the Town's ability to raise property taxes is restricted by the enactment of legislation known as "Proposition 2 ½". General obligation bonds currently outstanding are as follows:

	Serial Maturities Through	Interest Rate(s)%	Amount Outstanding as of June 30, 2002
<u>Governmental Activities:</u>			
General obligation	09/04	4.35	\$ 525,000
General obligation	06/05	4.33	560,000
General obligation	07/07	4.43	2,625,000
General obligation	03/12	3.83	2,690,205
General obligation	08/14	4.00	12,015,000
General obligation	10/14	5.90	2,320,000
General obligation	03/15	4.94	9,470,000
General obligation	02/19	4.33	17,000,000
General obligation	03/20	5.51	16,775,000
Total Governmental			63,980,205
<u>Business-Type Activities:</u>			
Water bond (MWRA)	08/02	-	150,412
Sewer bond	09/04	4.35	225,000
Sewer bond (MWRA)	05/07	-	234,521
Sewer bond (MWRA)	08/10	-	781,362
Water bond	03/12	3.83	150,174
Sewer bond	03/12	3.83	254,621
Water bond (MWRA)	05/12	-	868,180
Sewer bond (MWRA)	06/15	2.54	308,168
Total Proprietary			2,972,438
Total All Debt			\$ 66,952,643

B. Future Debt Service

The annual principal payments to retire all general obligation long-term debt outstanding as of June 30, 2002 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$ 5,715,205	\$ 2,891,598	\$ 8,606,803
2004	5,740,000	2,635,731	8,375,731
2005	5,475,000	2,377,948	7,852,948
2006	4,740,000	2,088,663	6,828,663
2007	4,465,000	1,922,357	6,387,357
2008 - 2012	20,065,000	6,878,246	26,943,246
2013 - 2017	13,170,000	2,922,900	16,092,900
2018 - 2022	<u>4,610,000</u>	<u>439,605</u>	<u>5,049,605</u>
Total	\$ <u>63,980,205</u>	\$ <u>22,157,048</u>	\$ <u>86,137,253</u>

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$ 507,598	\$ 110,056	\$ 617,654
2004	358,241	99,122	457,363
2005	359,152	87,380	446,532
2006	280,130	110,004	390,134
2007	281,169	68,968	350,137
2008 - 2012	1,094,289	217,144	1,311,433
2013 - 2015	<u>91,859</u>	<u>37,446</u>	<u>129,305</u>
Total	\$ <u>2,972,438</u>	\$ <u>730,120</u>	\$ <u>3,702,558</u>

C. Bond Authorizations

Long-term debt authorizations which have not been issued or rescinded as of June 30, 2002 are as follows:

<u>Purpose</u>	<u>Amount</u>
Main library steps repair A9A ATM93	\$ 500
Woodrow Wilson	331
Rubbish packer	30
High school renovation	54,000,000
Roosevelt school demolition	22,104
Polling equipment	51,710
Park Street drainage	300,000
Special assessment - Carter, Woodstock	1,884,000
Library project	466
Waushakum lake water main	55,820
Kennel construction	24,000
Sidewalk repair	200,000

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<u>Purpose</u>	<u>Amount</u>
Stormwater plan	500,000
American Treasurer's downtown projects	196,977
Boiler - Brophy School	4,999
Boiler - Dunning School	7,039
Carter, Merloni, Tusoni Parks Lights	23,984
Park & School fence replacement	46,981
Street sweeper public works	6,854
2 ½ 4WD pick ups public works	1,928
Replacement generator - fire	2,300
Streetlights purchase	79,585
Sewer main rehabilitation - Sudbury River interceptor	78,174
Sewer system infiltration and inflow evaluation	300,000
Vaillencourt pump station	130,000
Brick, Arch Street sewer mains	56,000
3,000 gal. sewer jet truck	11,798
Sewer - 35K GVW dump truck	6,328
Sewer - 1 ton utility truck	6,039
Water main rehabilitation and reline	538,820
Water backhoe	4,742
Fay Road and Seminole Avenue park	250,000
Public works fork lift	32,000
Zetron alert system fire	157,200
Henry Street remediation	62,000
Sidewalk reconstruction	50,000
Sanitation rack truck	44,000
Sanitation 4WD supercab pick-up truck	25,550
Rubbish packer	142,500
Brophy School - roof repairs	297,000
Field mower school	73,000
Integrated financial management software	199,271
Water main repairs	1,048,000
Water service replacement	150,000
Comprehensive sewer management study	350,000
1 Ton 4WD pickup water department	33,200
Arena roof replacement	380,000
Total	<u>\$ 61,835,230</u>

D. Legal Debt Margin

The Town is subject to the General Laws of the Commonwealth of Massachusetts which limits the amount of bonded debt the Town may have outstanding to 5 percent of the valuation of taxable property as last equalized by the Commonwealth's Department of Revenue. The following is a computation of the legal debt margin as of June 30, 2002 (in thousands of dollars):

Equalized valuation - January 1, 2002		\$ <u>6,493,582</u>
Debt limit - 5% of equalized valuation		\$ 324,679
Total debt outstanding	66,953	
Less: debt exempt from limit	<u>(40,544)</u>	<u>26,409</u>
Legal Debt Margin		\$ <u>298,270</u> *

* Does not include authorized but unissued debt.

E. Changes in General Long-Term Liabilities

During the year ended June 30, 2002, the following changes occurred long-term liabilities (in thousands):

	Balance July 1, 2001	Additions	Reductions	Balance June 30, 2002
<u>Governmental Activities</u>				
Capital leases	\$ 52	\$ -	\$ (52)	\$ -
Accrued employee benefits	1,929	241	-	2,170
General obligation debt	<u>66,650</u>	<u>2,690</u>	<u>(5,360)</u>	<u>63,980</u>
Totals	<u>\$ 68,631</u>	<u>\$ 2,931</u>	<u>\$ (5,412)</u>	<u>\$ 66,150</u>
<u>Business-Type Activities</u>				
General obligation debt	<u>\$ 1,829</u>	<u>\$ 1,507</u>	<u>\$ (364)</u>	<u>\$ 2,972</u>
Totals	<u>\$ 1,829</u>	<u>\$ 1,507</u>	<u>\$ (364)</u>	<u>\$ 2,972</u>

13. Restricted Net Assets

The accompanying entity-wide financial statements report restricted net assets when external constraints from grantors or contributors are placed on net assets.

Federal and state grant restrictions represent grant proceeds on hand at June 30, 2002 that are restricted to expenditures for specific purposes.

Permanent fund restricted net assets are available to be spent based on donor restrictions.

Other restricted represents anticipated future receipts of School Building Assistance Bureau (SBAB) reflected at estimated net present values.

14. Reserves of Fund Equity

The Town has established "reserves" of fund equity to segregate fund balances which are either not available for expenditure in the future or are legally set aside for a specific future use.

The Town reported the following types of reserves at June 30, 2002:

Reserved for Encumbrances - An account used to segregate that portion of fund balance committed for expenditure of financial resources upon vendor performance.

Reserved for Expenditures - Represents the amount of fund balance appropriated to be used for expenditures in the subsequent year budget.

Reserved for Permanent Funds - Represents the principal of the permanent fund investments. The balance cannot be spent for any purpose; however, it may be invested and the earnings may be spent.

15. General Fund Undesignated Fund Balance

The undesignated general fund balance reported on the balance sheet is stated in accordance with generally accepted accounting principles (GAAP), which differs in certain respects from the Massachusetts Uniform Municipal Accounting System (UMAS). The following paragraphs summarize the major differences.

Massachusetts general laws include provisions to allow municipalities to over-expend certain appropriations if they are incurred in an emergency situation and for the safety of the public. The most common example involves the "snow and ice" appropriation. All such overexpenditures, however, must be funded in the subsequent year's tax rate.

Massachusetts General Laws require that non-property tax revenue budget shortfalls, net of appropriation turnbacks, be funded in the subsequent year. The same treatment is also applied to the excess of actual property tax abatements and exemptions over the provision for abatements and exemptions (overlay).

The Massachusetts State Legislation also allowed municipalities to defer funding for a portion of the 1992 and 1993 teachers summer pay to future years. This must be funded within a 15 year period, beginning in 1997.

The accompanying financial statements include an estimate for future potential tax refunds, which is not recognized under UMAS.

The following summarizes the specific differences between GAAP basis and statutory basis of reporting the general fund undesignated fund balance:

GAAP basis balance	\$ 3,712,938
Teacher pay deferral	1,790,620
Tax refund estimate	<u>994,362</u>
Statutory (UMAS) Balance	\$ <u>6,497,920</u>

16. Commitments and Contingencies

Outstanding Lawsuits - There are several pending lawsuits in which the Town is involved. The Town's management is of the opinion that the potential future settlement of such claims would not materially affect its financial statements taken as a whole.

Grants - Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount of expenditures which may be disallowed by the grantor cannot be determined at this time, although the Town expects such amounts, if any, to be immaterial.

17. Post-Retirement Health Care and Life Insurance Benefits

The Town has accepted Chapter 32B of Massachusetts General Laws to provide for health care and life insurance benefits to retirees, their dependents, or their survivors. These benefits are provided through the Town's group plans. The cost of these benefits are included in the total cost of benefits for both active and retired employees. The number of participants currently eligible to receive benefits, and cost of benefits for retirees, their dependents, or their survivors for the year ended June 30, 2002 was not available.

18. Contributory Retirement System

A. Plan Description and Contribution Information

Substantially all employees of the Town (except teachers and administrators under contract employed by the School Department) are members of the Framingham Contributory Retirement System (FCRS), a cost sharing, multiple employer defined benefit PERS. Eligible employees must participate in the FCRS. The pension plan provides pension benefits, deferred allowances, and death and disability benefits. Chapter 32 of the Massachusetts General Laws establishes the authority of the FCRS Retirement Board. Chapter 32 also establishes contribution percentages and benefits paid. The FCRS Retirement Board does not have the authority to amend benefit provisions. As required by Massachusetts General Laws, the System issues a separate report to the Commonwealth's Public Employee Retirement Administration Commission.

Membership of each plan consisted of the following at December 31, 2001, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	810
Terminated plan members entitled to but not yet receiving benefits	185
Active plan members	<u>1,165</u>
Total	<u>2,160</u>
Number of participating employers	2

Employee contribution percentages are specified in Chapter 32 of the Massachusetts General Laws. The percentage is determined by the participant's date of entry into the system. All employees hired after January 1, 1979 contribute an additional 2% on all gross regular earnings over the rate of \$ 30,000 per year. The percentages are as follows:

Before January 1, 1975	5%
January 1, 1975 - December 31, 1983	7%
January 1, 1984 - June 30, 1996	8%
Beginning July 1, 1996	9%

Employers are required to contribute at actuarially determined rates as accepted by the Public Employee Retirement Administration Commission (PERAC).

B. Summary of Significant Accounting Policies

Basis of Accounting - Contributory retirement system financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Method Used to Value Investments - Investments are reported in accordance with PERAC requirements.

C. Teachers

As required by State statutes, teachers of the Town are covered by the Massachusetts Teachers Retirement System (MTRS). The MTRS is funded by contributions from covered employees and the Commonwealth of Massachusetts. The Town is not required to contribute.

All persons employed on at least a half-time basis, who are covered under a contractual agreement requiring certification by the Board of Education are eligible, and must participate in the MTRS.

Based on the Commonwealth of Massachusetts' retirement laws, employees covered by the pension plan must contribute a percentage of gross earnings into the pension fund. The percentage is determined by the participants date of entry into the system and gross earnings, up to \$ 30,000, as follows:

Before January 1, 1975	5%
January 1, 1975 - December 31, 1983	7%
January 1, 1984 - June 30, 1996	8%
Beginning July 1, 1996	9%

Effective January 1, 1990, all participants hired after January 1, 1979, must pay an additional 2% of salary in excess of \$ 30,000. The Town's current year covered payroll for teachers was approximately \$ 37,560,000.

In fiscal year 2002, the Commonwealth of Massachusetts contributed \$ 11,418,371 to the MTRS on behalf of the Town. This is included in the education expenditures and intergovernmental revenues in the general fund.

19. Self Insurance

The Town self insures against claims for workers compensation, unemployment and most employee health coverage. Annual estimated requirements for claims are provided in the Town's annual operating budget.

Health Insurance

The Town contracts with an insurance carrier for excess liability coverage and an insurance consultant for claims processing. Under the terms of its insurance coverage, the Town is liable for any excess due over \$ 75,000 per incident, with a maximum lifetime coverage of \$ 2,000,000. The claims liability represents an estimate of claims incurred but unpaid at year end, based on past historical costs and claims paid subsequent to year end. Changes in the aggregate liability for claims for the year ended June 30, 2002 are as follows:

	<u>Health Coverage</u>
Claims liability, July 1, 2001	\$ 2,919,683
Claims incurred/recognized in fiscal year 2002	21,822,157
Claims paid in fiscal year 2002	(21,352,615)
Claims liability, June 30, 2002	\$ <u>3,389,225</u>

20. Risk Management

The government is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the government carries commercial insurance. There were no significant reductions in insurance coverage from the previous year and have been no material settlements in excess of coverage in any of the past three fiscal years.

TOWN OF FRAMINGHAM, MASSACHUSETTS
CONTRIBUTORY RETIREMENT SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION

Schedules of Funding Progress and Employer Contributions

The following schedules are presented in accordance with the Governmental Accounting Standards Board Statement 25.

Schedule of Funding Progress (dollar amounts in thousands):

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent- age of Covered Payroll [(b - a)/c]
1/01/91	\$ 40,645	\$ 92,433	\$ 51,788	44.0%	\$ 27,351	189%
1/01/95	\$ 62,360	\$ 122,220	\$ 59,860	51.0%	\$ 29,168	205%
1/01/98	\$ 105,941	\$ 156,983	\$ 54,042	67.5%	\$ 33,120	163%
1/01/00	\$ 147,572	\$ 181,149	\$ 33,577	81.0%	\$ 39,871	84%
1/01/02	\$ 142,893	\$ 206,810	\$ 63,917	69.1%	\$ 42,132	152%

Information is only provided for those years in which an actuarial valuation or actuarial update was performed. Information prior to 1991 is not available.

Schedule of Employer Contributions (Town share only):

Year Ended June 30	Annual Required Contribution	Percentage Contributed
1992	\$ 4,869,897	100%
1993	5,378,958	100%
1994	5,663,861	100%
1995	6,805,493	100%
1996	6,195,869	100%
1997	6,449,439	100%
1998	6,655,700	100%
1999	6,945,980	100%
2000	6,888,019	100%
2001	6,023,613	100%
2002	6,521,400	100%

The required information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows.

Valuation date	January 1, 2002
Actuarial cost method	Individual entry age normal
Amortization method	4.5% increasing
Remaining amortization period	26 years
Asset valuation method	5 year smoothing
Actuarial assumptions:	
Investment rate of return	8%
Projected salary increases	4.75 - 5.25%
Cost of living adjustments	3% of \$ 12,000 per year of retirement income (included in January 1, 1998 figures)

See Independent Auditors' Report.